TECHNOLOGY M&A REVIEW 2012 1H

Key statistics	31 Dec 2011	30 Jun 2012	Change
FTSE	5,572	5,683	+2%
FTSE Techmark	2,064	2,276	+10%
NASDAQ	2,605	2,935	+13%
US$ / £ exchange rate	1.56	1.57	1%
Technology M&A deals Vol. (No.) – last 6m	2,062	1,957	-5%
Price to EBIT (x) – last 6m	17.5	16.7	
Price to revenue (x) – last 6m	1.7	2.0	

1. A MACRO VIEW

After a bright start to 2012, following a €1trillion Christmas bailout for the Euro, the world economy is again stuttering and global markets are being driven by the impact of the euro crisis. However, governments have acted to stimulate global economic growth by extending quantitative easing, increasing bank bailouts and cutting interest rates. Overall, the climate seems to be one of low growth, low interest rates and low inflation for some time to come.

However, although the macro situation is messy, particularly in Southern Europe, the corporate sector remains in good shape. Corporate profitability is at an all-time high in the US after productivity increases and big wage cuts in the past few years. Corporate balance sheets are also very strong. As a result most companies are in good shape and equities look good value.

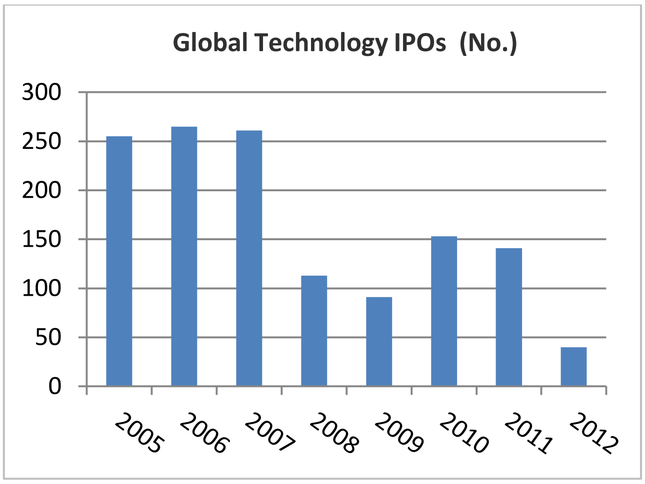
So far this year, equity markets are up a bit in the UK and US. However, technology markets remain very strong with Techmark up 10% and the NASDAQ up by 13%, as investors seek growth.

2. GLOBAL TECHNOLOGY M&A

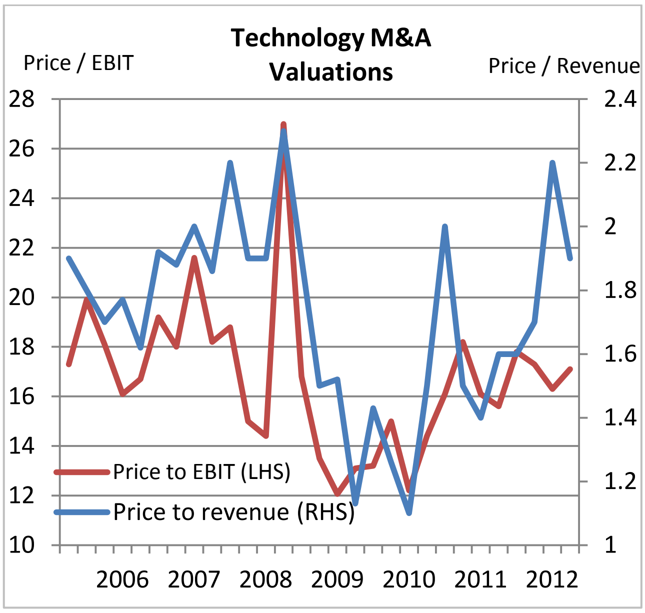
Corporate balance sheets in the technology sector remain particularly strong, with the Top 10 having over $350bn in cash. They are therefore well positioned to fund M&A activity without recourse to banks.

In aggregate, the number of M&A transactions in the last six months has fallen slightly compared with the last six months of 2011, but with nearly 2,000 transactions the market remains very active and healthy.

The value of transactions has fallen, mainly due to an absence of mega deals from the largest caps but, more importantly, the number of very large private equity funded deals has fallen quite significantly as the lack of debt financing that they rely on starts to bite. In 2011 there were a total of 8 private equity deals valued at more than $1bn, this year so far there has been none.

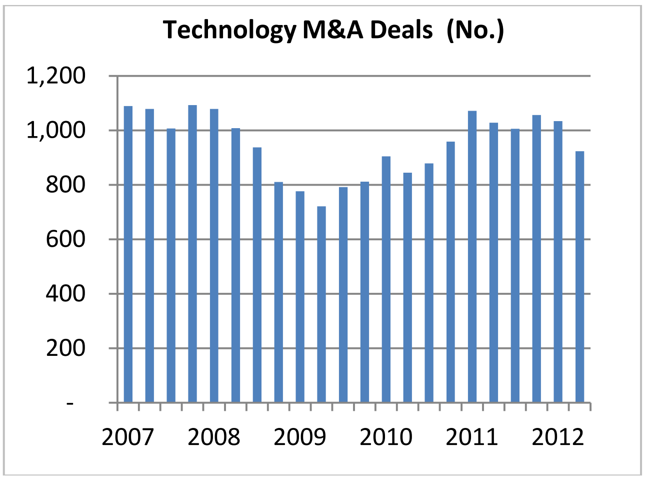


The IPO market remains very difficult. There have been notable successes in the past few years such as, LinkedIn, in the US and digital media company, Perform, in the UK. But there have been others that have really struggled like Groupon, whose shares have fallen by more than 60%. The biggest IPO in recent times was Facebook this year with a $100bn price tag that proved to be too high. As a result the shares have fallen and there is a general smell of burnt fingers. At the moment the IPO market doesn't seem a viable exit route for most technology companies.



Global IT valuations of M&A transactions are in good shape with EBIT multiples holding steady while the price to revenue trend is certainly on the up. This is probably the result of several different factors including more cross-border strategic deals, less distressed transactions and more acquisitions in high growth sectors such as social media, digital marketing and niche software where multiples of revenue paid tend to be higher.

Currently, average price to sales is around 2.0, a significant 18% increase from comparable valuations in 2011.



Although the number of deals so far this year are down 5%, it is still similar to the number of deals completed in the bull market period of 2005-2008, indicating a healthy and active market.

Acquirers with capital remain active, although the largest financial buyers have remained on the sidelines, currently digesting large deals of the past few years.

3. US TECHNOLOGY M&A

In the past few years there have been some extremely large tech deals; last year it was Google/Motorola Mobility for $12.5bn, HP/Autonomy for $10.3bn and Microsoft/Skype for $8.5bn, following earlier deals like Oracle/Sun for $7.4bn, Xerox/ACS for $7.6bn, HP/EDS for $13bn and McAfee/Intel for $7.7bn. Interestingly, almost all these deals were from complementary rather than competitive acquirers. Please note if you are planning an exit in next few years you may need to think a bit laterally in looking for an ideal strategic partner.

The Biggest US Deals in 2012 so far

Date	Purchaser	Target	EV ($000)	EV / T/o (x)	Activity of Target
May-12	SAP	Ariba	4,300,000	10.0	Cloud based ecommerce platform
Jun-12	Dell	Quest	2,400,000	2.8	Information management solutions
Feb-12	Oracle	Taleo	1,900,000	6.3	HR talent management software SaaS
Jun-12	Microsoft	Yammer	1,200,000	80.0	Corporate social networking
May-12	Ericsson	Telcordia	1,150,000	4.8	Mobile broadband and networks
Apr-12	Microsoft	AOL patents	1,000,000		Patents
Apr-12	Facebook	Instagram	1,000,000		Mobile photo effects and sharing.
Mar-12	Amazon	Kiva Systems	775,000	55.0	Mobile handling systems
Mar-12	Salesforce.com	Buddy Media	689,000	80.0	Online social media marketing
Mar-12	NEC	Convergys IM	449,000		Customer analytics software
Mar-12	Intuit	Demandforce	423,000	43.0	Online marketing
Mar-12	Blackbaud	Convio	325,000	7.5	Not for profit software
May-12	Oracle	Vitrue	300,000	10.0	Cloud social marketing platform

This year there have been fewer mega deals but the valuations of those completing are higher. The biggest US deal was **SAP** acquiring cloud based e-commerce platform **Ariba** for $4.3bn or 10 x sales. Ariba is a business platform that combines cloud-based applications with the world's largest web-based trading community. Over 700,000 customers use the Ariba network to enable businesses to connect to their trading partners. With an exit value at over $40 a share the 10 x revenue valuation sounds great, unless you acquired your shares in the dotcom boom when they touched a mind boggling $1,000 a share.

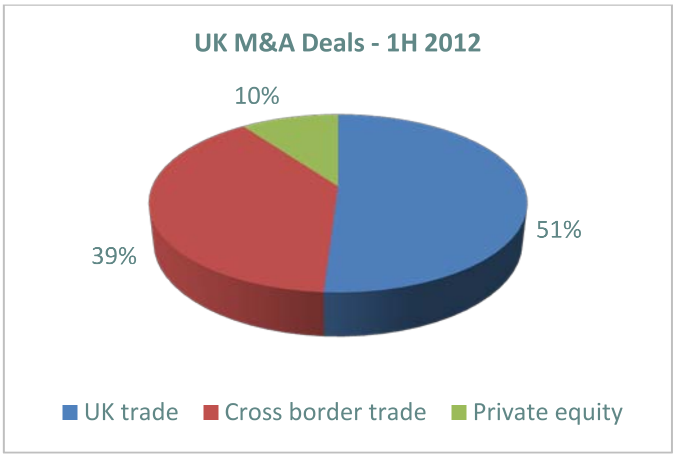
Quest is about to be acquired by **Dell** who outbid private equity house, Insight, by paying $2.4bn or 3 x sales for the information management group. Quest itself is an acquisition machine having been formed from 28 earlier acquisitions and as a result, revenues have increased from $70m to $850m in 12 years – pretty impressive growth.

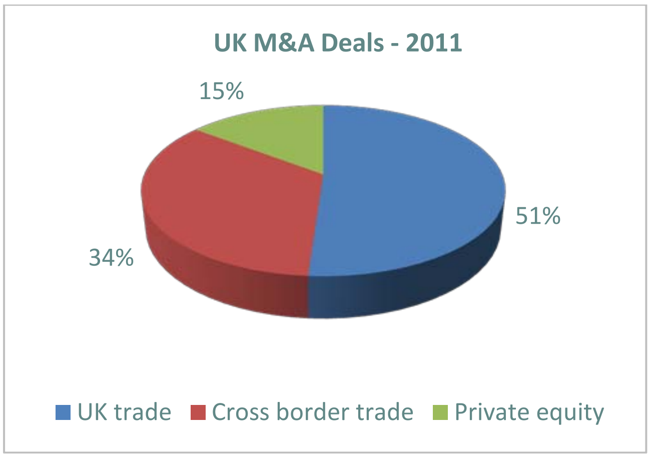
Other noticeable deals included the acquisition of a flurry of social networking and social media type businesses with astonishing valuations. **Facebook** acquired **Instagram**, with minimal revenues and only 13 staff, for $1bn and the acquisitions of **Yammer, Buddy Media, Demandforce** and **Vitrue** are all from the social media and digital marketing sector, with very high prices paid relative to revenues achieved to date. No doubt some of these will prove to be good investments but many look like speculative punts from investors with deep pockets. **Microsoft** recently wrote off $6bn from overpaying for eQuantive a few years back and it is unlikely to be the last write off.

The most acquisitive company so far this year has been **Constellation Software** and its subsidiaries like Volaris and Trapeze. In total they have acquired 9 companies in focused verticals such as passenger transport systems. Its acquisition spree is certainly popular with investors as it shares have doubled in the past two years.

4. UK TECHNOLOGY M&A

Trade buyers remain active and the increasing number of overseas acquirers is driving the market. One of the most significant changes in 2011 was the increase in the number of overseas buyers in the UK technology sector. In 2010, the number of deals with a foreign trade buyer accounted for only 18% of the deals, but in 2011 that percentage increased to 34% of all deals tracked and so far this year has risen again to 39%. That is a very significant shift and it represents a big increase in the confidence of global technology companies.





Top valuations tend to be paid by overseas acquirers, our table below clearly shows their dominance in paying top dollar for UK tech businesses in 2012.

Top Valuations for UK Technology M&A Targets

Date	Purchaser	Target	EV(£000)	EV / T/o (x)	Activity of Target
May-12	MBO Bridgepoint	BigHand	49,000	8.0	Voice productivity software
Jun-12	KBC Advanced Technologies	Infochem	8,200	6.8	Oil and gas fluid software
Feb-12	Myriad Group	Synchronica	23,600	6.0	Mobile messaging software
Jun-12	Moneysupermarket	MoneySaving Expert	87,000	5.5	Money saving advice online
Feb-12	KeyedIn Solutions	Atlantic Global	6,000	5.5	Project management software
Mar-12	Cisco	NDS	3,100,000	5.2	Video technology set top TV boxes
Feb-12	Mindspeed Technologies	Picochip	52,300	5.2	Signal processing chip developer
Jun-12	Peer 1 Hosting	Netbenefit	25,000	4.0	Managed hosting division of NBT
Mar-12	Vista Equity	Misys	1,200,000	3.0	Financial software developer
Jun-12	Corporate Executive Board Co	SHL	600,000	2.9	Talent assessment aptitude testing
Jan-12	Trinity Mirror	Communicator Corp	7,300	2.3	Email management
Jan-12	Cinven	CPA Global	950,000	2.2	Patent renewal services
Jun-12	AMEC	Serco Technical Services	137,000	2.0	Technical consulting to defence
May-12	Francisco Partners	Kewill	89,000	1.6	Supply chain software
Feb-12	Brady	Navita Systems	17,100	1.6	Electric/power emissions software
May-12	Parity	Inition	3,750	1.4	3D technology
Feb-12	Amaya Gaming	Cryptologic	19,200	1.3	Gaming software developer
Jan-12	Capita	Smiths Consulting	12,000	1.2	SAP services / consultants
May-12	Innovation Group	Marshall Thompson	5,200	1.2	Environmental assessment
Feb-12	Brady	Syseca	1,200	1.2	Logistics software for electricity
Apr-12	Micros Systems	Torex	162,000	1.1	Retail and hospitality software
Apr-12	Capita	Bluefin	50,000	1.0	Employee benefits consulting
Mar-12	IDOX	Opt2vote	3,500	1.0	Voting software for government

Deals that caught ICON’s eye:

The biggest UK deal was the $5bn **Cisco** acquisition of **NDS** which develops software solutions for the pay TV industry. It was Cisco’s first big deal for a couple of years - they said NDS was a strategic fit for its video system Videoscape, as NDS' software allows cable and satellite TV companies to deliver encrypted content through televisions and other devices. Staines based NDS was established in 1988 as an Israeli start up company. It was acquired by News Corporation in 1992 but following an earlier IPO, private equity player Permira was the 51% shareholder at exit. The group, like so many larger companies, is a melting pot of a number of other acquisitions like Orbis, Alphameric, Interactif, MediaHighway, Jungo and CastUp who all provided interactive TV related software.

Motorola acquired **Psion** for £128m or 0.7 x revenues. Hardly an exciting exit for the handheld computer company, particularly as it was one of the founders of the PDA (personal digital assistant) in the mid-1980s. However just as RIM is facing severe challenges to its retail handheld products, Psion which now focuses on retail and warehouse industrial handheld products, is also facing softer markets. While Motorola paid 88p a share in cash, a significant uplift in the 60p price that Psion was trading at beforehand, it is some distance from the peak valuation of £30 for which the shares traded back in the dotcom boom.

Vista Equity Partners acquired financial software provider, **Misys**, for £1.2bn. Misys (like Psion) is no youngster, having been formed in 1979 to supply software to insurance brokers. Then under the leadership of Kevin Lomax, Misys acquired a myriad of companies such as BIS, ACT and Kapiti (all banking software), Summit (asset management) and more recently Sophis (risk management). Bizarrely they also moved into healthcare software in the US before exiting the business two years later. Earlier this year they were approached by Swiss rival Temenos but terms could not be agreed and when talks faltered Vista swooped. At over 3 x sales and 15 x EBIT I would think the shareholders were quite happy at that price, given the state of the financial sector.

Logica has had a tough decade with its shares having fallen significantly over that time. So it’s no surprise that they are acquired following a £1.7bn bid from Canadian **CGI**. David Tyler, chairman of Logica, pointed out that because of the relative strength of the Canadian economy, CGI had been able to raise $1bn from issuing equity to a large Canadian pension fund and raised $2bn in debt from banks to fund the deal. UK companies, Mr Tyler said, would struggle to raise these amounts in the economic climate.

MoneySavingExpert owned by consumer finance evangelist Martin Lewis sold for £87m to **MoneySupermarket** in a cash and shares deal that will make Martin very wealthy. He has generously given £10m of the deal to benefit charities. With revenues of £15.8m and profits of £12.6m one gets a glimpse at the staggering profitability of the “click through” revenue model when you get it right. It looks a great deal for Martin at over 5 x revenues.

MICROS Systems acquired Dunstable based **Torex Retail**, a leading provider of POS and back office technology to the retail, hospitality, convenience and fuel markets. MICROS Systems, yet another US acquirer, supplies the hospitality and retail industries worldwide and this deal broadens their already wide base as they are already in more than 180 countries and service 100,000 stores globally. The valuation of 1.1 x revenues and 13 x EBIT reflects the generally tough retail environment.

Shareholders at logistics software supplier **Kewill** were happy to accept an £89m offer (net of its cash) made by $2.5bn US private equity player, Francisco Partners, after a tussle with another private equity fund, Symphony. Guildford based Kewill has had a tough time recently with a few profit warnings and a recently announced a loss. This is reflected in a valuation of 1.6 x revenues. The value of 110p a share is over 50% increase on the value prior to the approach, but is some way from the £30 a share that was achieved in 2000.

AIM listed, project management software company **Atlantic Global** based is Cleckheaton, Yorkshire was acquired by Minneapolis based **Keyedin Solutions**. The acquirer, KeyedIn, is a name we may see a lot more of as George and Lauri Klaus start to build another business similar to Epicor which they grew from $30m to nearly $1bn in ERP revenues before it was sold to Activant.

Capita continued its acquisition spree taking their total deals above 70 in the past 5 years. The targets remain diverse - this time its employee benefits, healthcare software and SAP consulting. To fund this spree they raised £290m in cash by issuing new shares which will shore up the Balance Sheet after a busy couple of years.

Other UK deals announced in the first half of 2012 include the following:

- **IDOX** continued its successful growth, despite a tough public sector climate, acquiring Opt2vote, the voting solutions company and Currency Connect, an R&D advisory business;
- **Digital Barriers** bought a further 3 very small, niche, defence technology related businesses in areas such as video, surveillance and screening. This takes their acquisitions up to 12 since their IPO just a few years ago;
- Private equity backed players such as **Adapt** continue their buy and build strategy in managed services;
- French based IT player **Sopra** made two significant investments to boost their UK presence, acquiring UK arms of Business and Decision and financial focused Tieto at a combined cost of £48m;
- Several mid cap players trimmed their activities by selling off divisions such as **Serco** who sold their non-core defence consulting business to AMEC, **Maxima's** document management business was acquired by m-hance, **Sanderson's** retail division was sold to Torex and **Vertex** Public software sold to Serco;
- In the first half of the year **IBM** acquired 8 companies globally including London based Green Hat, the cloud based software testing business which has been merged with its Rational division. An interesting move, again highlighting that mega caps do acquire niche UK businesses;
- US listed **CACI** returned to the acquisitions table with the purchase of £20m revenue Tomorrow Communications to boost its managed services;
- Vin Murria's Advanced Computer Software acquired Fabric the London based IT services provider paying 9 x EBIT for the £11m revenue supplier. A slightly off-piste move for ACS which is more focused on the health sector; and
- Finally, German listed **Software AG** acquired U.K. middleware company my-Channels, which develops low-latency messaging software. Its Nirvana platform is a good fit for next-generation cloud, mobile, social and big data applications. The product is capable of streaming hundreds of thousands of messages to many thousands of clients within micro seconds.

5. OUTLOOK

Following the Facebook and Groupon flops, the IPO market is likely to remain quiet in the short term, so for UK technology shareholders looking to realise their equity, the M&A route still remains the only realistic option. The good news is that trade acquirers from overseas are actively looking for deals and prepared to pay attractive prices. The bad news is that buyers are choosey, they don't want headaches, they want well-run, profitable businesses with recurrent revenues that are growing. In particular, in the current low growth macro climate investors want growth and are prepared to pay for it. Hot sectors remain social media, e-commerce, information management, cloud computing, SaaS software, online gaming, business intelligence/analytics and IT security.

For further details contact:

Brian Parker, Head of M&A
T: +44 (0) 207 152 6375 E: brian@iconcorpfin.co.uk

Alan Bristow, CEO
T: +44 (0) 207 152 6375 E: alan@iconcorpfin.co.uk

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